

66-3347

1 August 1966

MEMORANDUM FOR: The Honorable Dean Rusk
The Secretary of State

SUBJECT: Soviet and Chinese Activities in
the World Wheat Market

The attached paper is in response to your
concern about Soviet and Chinese activities in the
world wheat market. I propose to keep you advised
periodically.

/s/ Richard Helms

Richard Helms
Director

Attachment - 1
Subject paper

OD/ORR:WNMorell, Jr. [redacted] (29 July 66)
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OD/ORR: WNMorell, Jr. /  (29 Jul 66)

SOVIET AND CHINESE ACTIVITIES IN THE WORLD WHEAT MARKET

There have been no indications of Soviet activities in the world wheat market since the agreement with Canada announced on 20 June 1966. Soviet purchases of Free World wheat for delivery during the next twelve months now total almost 4 million tons valued at about \$300 million -- three-quarters from Canada and the remainder from France. This compares with deliveries over the preceding twelve months of about 9 million tons. Given the present prospects for a good Soviet wheat crop this year, recent purchases were probably made to assure adequate grain supplies over the next several years rather than to meet anticipated shortages this year.

Communist China, with another poor wheat crop in prospect, will continue to be in the market for additional wheat imports during the coming months. We have no evidence, however, that recent Soviet orders are designed to pre-empt Chinese grain purchases. Limited Soviet gold and foreign exchange reserves would make such action extremely unlikely.

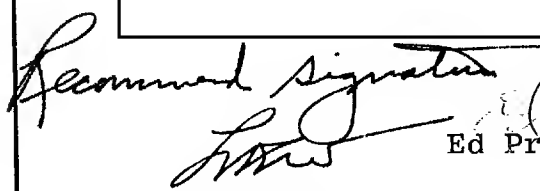
Several reasons probably underlie Soviet orders for 1966/67 and the Soviet purchase agreement with Canada for deliveries of an additional 6 million tons of wheat over the period mid-1967 to mid-1969:

- a. Recognition by the Soviets that their huge investment program in agriculture, which runs through 1970, is unlikely to pay off for several years.
- b. Concern over supply and price trends in the world wheat market over the next few years in view of Soviet dependence on imports in the event of serious shortfalls in domestic production such as occurred in 1963 and 1965.
- c. The need to replenish depleted grain reserves.
- d. A desire to achieve savings in shipping costs by arranging deliveries to the Soviet Far East from Canada by sea as opposed to expensive overland shipments from the European USSR. Savings will also accrue from deliveries of Canadian grain to Cuba to meet Soviet commitments.

The world wheat supply situation currently is tight. Prospects point, however, to a record 1966 world wheat crop. The bumper Canadian crop in prospect will largely offset the recent forecast of a US wheat crop only slightly above average. In Australia and Argentina, where harvests begin in December, record wheat acreages have been seeded and are off to a good start with favorable moisture supplies. In France, the other major Free World exporter, acreage is down, but recent weather points to high yields.

Chinese agreements for purchase of Free World grain for the period 1966/67 (July-June) now total only 3.3 million tons, compared with an average annual import in recent years of almost 6 million tons. Faced with reduced domestic production of wheat because of drought in the North China Plain and unfavorable prospects for the early rice crop as a result of flooding in the south, the Chinese have been actively seeking to purchase additional quantities of grain. Delivery contracts signed thus far all call for shipments before December of this year, and known efforts to purchase additional amounts also emphasize the need for delivery during this period. Despite these efforts, however, China has recently sold 100,000 tons of Argentine wheat to the UAR, apparently for delivery by July 1966. China undoubtedly believes that even though the world wheat market will remain tight over the next few months, sufficient additional grain can be procured from abroad to tide the country over until new supplies become available in early 1967.

CIA
29 July 1966

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